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Tucson Electric Power  
88 East Broadway Blvd., P.O. Box 711  
Tucson, Arizona 85702

CORP COMMISSION  
DOCKET CONTROL

April 7, 2015

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Re: Notice of Filing – Tucson Electric Power Company's 2015 Cost Containment Report  
Decision No. 71256, Docket Nos. E-01933A-07-0402, E-01933A-05-0650  
(Consolidated)

Pursuant to Decision No. 71256 (September 3, 2009), Tucson Electric Power Company hereby files its annual 2015 Cost Containment Report and as originally required by Decision No. 59594 (March 29, 1996).

If you have any questions, please do not hesitate to contact me at (520) 884-3680.

Sincerely,

Melissa Morales  
Regulatory Services

Enclosures: Cost Containment Report

cc: Compliance Section, ACC

Arizona Corporation Commission  
**DOCKETED**

APR 08 2015

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## **Tucson Electric Power Company 2014 Cost Containment Report**

The following is a summary of Tucson Electric Power's ("TEP" or "Company") cost containment efforts and quantified savings for 2014. A table outlining TEP's estimated savings of \$30.5 million for 2014 initiatives is attached as Exhibit A. Since the TEP Rate Case in 2012, the Company identified \$8.3 million in 2012 and \$21.4 million in 2013 of cost savings. The initiatives identified in those years continue to be ongoing sources of cost savings.

### **Contract Renegotiation / Supply Chain Management**

The Company implemented a supply chain sourcing effort in 2009 that continues to reduce costs for items such as equipment, poles, wires, transformers, pond liners, boilers and motors, saving over \$23.9 million in 2014. Most of the savings were the result of a few large capital projects which occurred in 2014. Supply chain has negotiated free transportation for moving inventory between facilities, buyback and product substitution to a new, lower cost manufacturer with savings of approximately \$0.3 million. In addition to these efforts, the Company was able to recognize a \$0.1 million rebate in 2014 for the pro-card initiative started in 2013, where a better rebate rate was negotiated.

### **Energy Delivery**

TEP's Energy Delivery effort in 2014 was to reduce overtime and training costs. The reduction in training costs both reduced cost of training and also decreased overtime as crews were able to complete work during working hours instead of training courses. This contributed to the Company's overalls savings of more than \$0.3 million in 2014.

### **Corporate Environmental Services**

The Corporate Environmental Services has captured investment recovery efforts as part of the decommissioning of projects. This effort includes selling the oil for a total cost recovery of \$0.2 million in 2014.

### **2014 Actual to Budget Savings**

TEP instituted company-wide hiring restrictions for 2009 and continued with a robust approval process through 2014. This process saved TEP approximately \$3 million compared to budget in 2014.

Travel and training expenses company-wide in 2014 were minimized to achieve a savings of \$0.5 million compared to budget.

### **Fortis Synergy Cost Savings**

During 2014, The Company merged with Fortis Inc. Upon completion of the merger, The Company was immediately able to obtain additional discounts on Property, Directors and Officers, Fiduciary, Excess Liability, and Crime Insurance Policies. These discounts will contribute \$1.2 million in savings in 2014 and 2015.

**Tucson Electric Power Company**  
**2014 Cost Containment Report**

In addition, cost savings in Investor Relations and external Audit expenses will approximate \$0.6 million per year going forward due to the merger with Fortis.

# Exhibit A

Area		Initiative	Explanation of Initiative	Estimated 2014 Savings (In Millions)
<b>Cost Reductions/ Revenue Enhancements since 2013:</b>				
<b>Contract Renegotiation</b>				
Contract Renegotiation / Supply Chain Mgmt	Savings through Bidding Process (Capital and O&M)	A "Documented Calculated Savings" formula is used by the Procurement & Contracts department to estimate the dollars saved when the competitive bidding process is used to purchase goods and/or services. \$20.5M of this was capital related and \$3.4M was O&M.		\$ 23.9
Contract Renegotiation / Supply Chain Mgmt	Border States Cost Containment	Allowed contractors to pick up DG product from supplier reducing inventory and manpower. Negotiated free transportation for moving inventory between LUES and TEP facilities. Evaluated Receipts Settlement (ERS) process reducing A/P time matching invoices. Buyback and product substitution to a new, lower-cost manufacturer. 2014 implemented savings of \$326K		\$ 0.3
Contract Renegotiation / Supply Chain Mgmt	Procurement Card Rebate	2014 Rebate \$124K for Procard initiative started in 2013		\$ 0.1
Energy Delivery	Training & Overtime Cost Reduction	A documented calculated savings of overtime and training in the Energy Delivery departments. Due to a reduction of training in training time, crews were able to work during regular work hours thus reducing overtime and training costs.		\$ 0.3
Corporate Environmental Services	Investment Recovery	Corporate Environmental Services has captured investment recovery efforts as part of decommissioning projects.		\$ 0.2
<b>2014 Actual to Budget Savings:</b>				
Employee and Other Compensation	Hiring Restrictions	Hiring restrictions requiring Sr. VP approval for any new hires resulted in continued savings.		\$ 3.0
Discretionary Expenses	Travel & Training	This amount represents the dollars unspent by departments company-wide for 2014.		\$ 0.5
<b>2014 Fortis Synergies</b>				
Risk Management	Insurance Fortis Synergy Savings	Once the merger was complete with Fortis, UNS was able to immediately recognize insurance savings for Property, Directors and Officers, Fiduciary, Excess Liability, and Crime Insurance Policies. This was effective for the 2014/2015 years.		\$ 1.2
Auditor Fees	Fortis Synergy Savings	The merger with Fortis has resulted in lower annual audit fees and a switch in auditors from PriceWaterhouse Coopers to Ernst & Young.		\$ 0.3
Investor Relations	Fortis Synergy Savings	Once the merger was complete with Fortis, UNS was able to immediately recognize savings on rating agency fees including Moody's and S&P.		\$ 0.3
Director Fees	Fortis Synergy Savings	The merger has resulted in lower Board of Director fees as a result of the new Board structure.		\$ 0.1